



Agenda Item No. _____

File Code No. 660.04

CITY OF SANTA BARBARA

JOINT COUNCIL AND REDEVELOPMENT AGENCY AGENDA REPORT

AGENDA DATE: July 21, 2009

TO: Mayor and Councilmembers
Chair and Boardmembers

FROM: Housing and Redevelopment Division, Community Development
Department

SUBJECT: Loan For Mom's Place Affordable Housing Project Sponsored by
Transition House At 421 East Cota Street

RECOMMENDATION:

That the City Council and Redevelopment Agency Board take the following actions regarding the proposed "Mom's Place" affordable housing project at 421 East Cota Street to be developed by Mom's L.P. using a new City loan of \$680,000:

- A. That Council approve a loan of \$680,000 of federal Home Investment Partnerships Program (HOME) funds to Mom's L.P. and authorize the City Administrator or Community Development Director to execute a loan agreement and related documents in a form approved by the City Attorney;
- B. That Council approve funding the proposed new HOME loan subject to the condition that Mom's L.P. receives low income housing tax credits and state loan funds, or other comparable financing as approved by staff and the City Attorney;
- C. That the Agency Board approve amending the Agency's 1999 acquisition loan and 2009 predevelopment loan to Transition House so that the terms of the existing loans are consistent with the proposed new HOME loan, approve assigning the two existing Agency loans to Mom's L.P., and authorize the Executive Director or Deputy Director to execute the required documents in a form approved by Agency Counsel;
- D. That the Agency Board approve subordination of the Agency loans to a new bridge loan, to a new permanent loan from the State of California, and to the regulatory agreements and covenants required under the Low Income Housing Tax Credit Program and the state's Supportive Housing Program, and authorize the Executive Director or Deputy Director to execute required documents in a form approved by Agency Counsel; and
- E. That Council and the Agency Board approve a new replacement affordability control covenant with Mom's L.P. covering all 16 units and approve subordination of the covenant to the liens of the bridge loan and the state's loan and to regulatory agreements and covenants required under the Low Income Housing Tax Credit Program and the state's Supportive Housing Program, make the finding that there is no reasonably available and economically feasible alternative for financing this

project without subordination of the affordability control covenant, and authorize the City Administrator or Community Development Director to execute required documents in a form approved by the City Attorney.

EXECUTIVE SUMMARY:

Mom's L.P. ("Mom's"), formed by Transition House for purposes of obtaining affordable housing tax credit financing, seeks \$680,000 in HOME funds to demolish a building that formerly housed the Mom's Restaurant and to construct a new mixed-use building with affordable rental housing units for homeless families and an infant care center. Transition House acquired the site in 1999, with Agency assistance, which includes an existing mixed-use building on the property with eight residential units, which Mom's plans to rehabilitate.

Two existing Agency loans will need to be assigned to Mom's. The documents will also need to be subordinated to new financing for the project and related regulatory agreements. The existing Agency loans plus the proposed new HOME loan total \$1,120,000. The City has sufficient HOME funds for the proposed project and faces an August 30th deadline to commit them.

The proposed project concludes a decade-long Transition House plan to create a cohesive campus dedicated to the full and lasting recovery of homeless families.

BACKGROUND:

For 25 years, Transition House has provided food, shelter and services to homeless families in Santa Barbara. Transition House acquired an old warehouse located at 434 East Ortega in 1992 and converted it to a family homeless shelter with ground-floor administrative offices and program space. In 1999, the family owners of the former Mom's Restaurant sold their property at a discounted price to Transition House. This property included the Mom's Restaurant building on Cota plus an adjacent modern mixed-use building at the corner of Olive and Cota with eight apartments located over ground-floor commercial space (renamed the Cordover Center after the organization's original Executive Director, Jill Cordover).

The Mom's property and the family homeless shelter on Ortega are located on the same block and are connected via a driveway (see attached site plan). After acquiring the Mom's property, Transition House was then able to embark on an ambitious plan to develop the properties as one cohesive campus that addresses the needs of homeless families in a comprehensive fashion. Transition House first created new space for offices and its programs and support services by converting the ground floor commercial space in the Cordover Center. This freed up the ground-floor space in the family shelter on Ortega and enabled Transition House to devote that building exclusively to shelter use. Transition House renovated the shelter and reconfigured the space to give families more privacy and to increase the number of families served.

Meanwhile, as vacancies arose in the eight apartments on the second floor of the Cordover Center, they were filled with client families that successfully completed

Transition House programs and demonstrated readiness for more independent living. As described below, the focus now shifts to the Mom's Restaurant building, which has been leased during the interim to antiques and furniture merchants (Cominiche's).

PROPOSED PROJECT:

Transition House plans to demolish the Mom's Restaurant building and construct a new, two-story mixed-use building with 9,700 square feet that will feature eight new apartments for client families and a 2,000 square foot infant care center and offices on the ground floor. The new building will include an elevator and a bridge connection to the adjacent Cordover Center building. With its location in a flood zone, the site area for the new building will be raised about three feet and will include access ramps. The Cordover Center will receive a new roof and repairs will be made to the eight existing apartments.

The proposed eight new units will include six 2-bedroom units with 850 square feet and two 3-bedroom units with 1,175 square feet. When combined with the existing eight units, this will result in four 1-bedroom units, ten 2-bedroom units, and two 3-bedroom units. Rents will range from \$437 to \$1,050 per month, depending on size and income targeting. The units will be targeted exclusively to low and very-low income households. Six units will be targeted to households earning 25 percent of the Area Median Income (AMI). Eight units will be targeted to 50 percent AMI, and two units will be targeted to 60 percent AMI.

Transition House submitted their application for preliminary design review in May. The proposed mixed uses are allowed in the C-M zone where the site is located. While Transition House is not seeking a density modification, they are seeking a parking modification. They submitted their preapplication for the parking modification in May and hope to appear before the City's Staff Hearing Officer in August. Their application for design review was also submitted in May. The City's Architectural Board of Review reviewed their conceptual design on June 29, and Transition House is working on incorporating their comments into their resubmittal due in the coming weeks.

DEVELOPMENT TEAM:

In order to be eligible for tax credit financing, Transition House established Mom's L.P., a California limited partnership, which consists of two general partners – Santa Barbara Housing Assistance Corporation and Garden Court, Inc. Both parties serve as general partners in a number of affordable housing projects, including El Carrillo and Garden Court. Transition House will retain ownership of the real property and will ground-lease it to Mom's L.P. Transition House will sell the Cordover Center building and Mom's Restaurant building (to be demolished) to Mom's L.P. Mom's L.P. will also own the new building to be erected at the location of the existing Mom's Restaurant building at 421 East Cota. Transition House will have an option to acquire both buildings and terminate the ground lease with Mom's L.P. after the first 15 years of the new project's operation.

The Housing Authority will assist Transition House in managing construction of the new project, just as they assisted Transition House with the renovation of the Ortega family shelter. Artisan Court, the new affordable housing project planned by the Housing

Authority, is located directly across the street. The two projects share the same architecture team of Christine Pierron and Mark Wienke.

PROPOSED FINANCIAL PLAN:

1. Original Financing: Transition House acquired the property in 1999 for \$3,000,000 by raising nearly \$2 million in private funds and securing first mortgage financing from Santa Barbara Bank & Trust (SBBT) in the amount of \$727,578. The SBBT loan was refinanced in 2006 with a new loan of \$675,000 that Transition House plans to pay off at the start of construction of the new project. The Agency provided the gap financing for the acquisition, which amounted to \$320,000. Over the last ten years, interest has accrued on the Agency acquisition loan (resulting in a current balance of \$420,000), which will be part of the permanent financing and will be amended as described below.

2. Costs of Proposed New Project: The total development cost of the new project is roughly \$8 million. This includes (i) acquisition of the existing buildings, (ii) rehabilitation of the existing eight affordable units in the Cordover Center, and (iii) construction of the new mixed use building with eight new affordable units and including the infant care center and office space for supportive services (See details in Attachment 3).

3. Proposed New Financial Plan: Transition House has retained Frank Thompson Housing Consultants to prepare the financial plan. Roughly half of the \$8 million project development cost will be paid for with tax credits. They also plan to receive roughly \$1 million from the state's Supportive Housing Program. Montecito Bank & Trust (MBT) has made a commitment to provide a bridge loan which will cover construction costs and funds to retire the existing SBBT loan. The MBT loan will be repaid upon completion of project construction when tax credits start flowing and the state loan closes. (See details on amounts in Attachment 3 and see descriptions of all financing sources below.)

The combined City and Agency contribution will total \$1,120,000, which is comprised of the proposed new HOME loan (\$680,000), the Agency predevelopment loan (\$120,000), and the Agency's acquisition loan (\$320,000). This subsidy amount is consistent with other affordable housing projects - \$40,000 per unit for the 1999 acquisition of the existing eight units and \$100,000 per unit for the proposed eight new units, resulting in an average per unit subsidy for the whole project of \$70,000.

a. Low Income Housing Tax Credits: Critical to the project's financing is the application Mom's submitted in early June to the California Tax Credit Allocation Committee (TCAC) – a highly competitive program designed to generate cash for low income affordable rental housing projects. If Mom's L.P. is awarded by TCAC, then it will be authorized to sell low income housing tax credits to investors. Mom's estimates that proceeds from the sale of tax credits would result in a cash infusion of \$4,231,000 to the project. Mom's has until August 17, 2009 to perfect their application (including documentation of the \$680,000 commitment of HOME funds requested here). TCAC is scheduled to announce their awards in September.

b. *State Supportive Housing Program:* Another critical component of the financial plan is the Supportive Housing Program. This program is a new bond-funded program operated by the State of California's Department of Housing and Community Development (HCD) to provide financial assistance to permanent affordable housing projects for the homeless that include supportive services. Transition House is seeking a 55-year loan in the amount of \$1,037,174. The HCD loan would not close until after construction is complete, and loan proceeds would be used to repay the bridge loan described below.

c. *Bridge Loan from Montecito Bank & Trust:* Transition House has secured a commitment for a short-term bridge loan from Montecito Bank & Trust (MBT) in the amount of \$3,475,000. Proceeds from this loan would be used to retire the existing first mortgage with SBBT and will be used for construction. The MBT loan will have a fixed interest rate of 6 percent and a term of 2 years.

d. *Proposed New HOME Loan:* Mom's has requested \$680,000 in permanent financing to be used exclusively for construction of the eight new affordable housing units. This request is consistent with what was anticipated when the Agency Board approved the Transition House predevelopment loan last September.

e. *Existing RDA Loans:* The 1999 Agency acquisition loan and the 2009 Agency predevelopment loan will be assigned by Transition House to Mom's L.P. It will also be necessary to extend the term of the loans and the repayment terms to make them consistent with the proposed new HOME loan (as described below).

f. *Transition House Contributions:* Transition House will make contributions to the project in the form of a seller "carryback" loan, deferred developer fee, and funds they raise from private sources for the infant care center. They will also be paying rent to Mom's L.P. for their office and program space and for the infant care center for at least 15 years until their option to purchase comes up.

4. *Terms, Subordination and Security of City and Agency Loans:* The proposed new HOME loan and the two existing Agency loans will bear interest at 3% per year, with payments due on a "residual receipts" basis. This means that no payments will be due until the net income of the project, after payment of necessary operating expenses, is sufficient to support such payments. Any unpaid balance which remains after 60 years will be due and payable at that time. These terms are typical of the City's and Agency's affordable housing loans.

During construction, the three City and Agency loans would be subordinate to the MBT bridge loan. After construction is completed, the City and Agency loans would be subordinate to the HCD loan and to the regulatory agreements. This subordinate position is a typical position for local government lenders in funding affordable housing projects.

The three loans would be secured by deeds of trust recorded against the leasehold interest held by Mom's and by Mom's ownership interest in the Cordover Center and the new mixed-use building. Because of the large amount of cash equity obtained from the sale of the low income housing tax credits which bears no debt, the proposed HOME and

existing Agency loans will be well secured by the leasehold interest and the project's equity after completion. However, as is often the case, the loans will not be fully secured during the construction phase, so the City and Agency are assuming some risk should the project not go forward to completion. Staff believes this risk is low and is acceptable under the circumstances. The solid track record of Transition House and the involvement of the Housing Authority provide great assurance.

As an implementation strategy for the Ten-Year Plan to End Chronic Homelessness Throughout Santa Barbara County, Bringing Our Community Home, the City, working in conjunction with Transition House and the Ten-Year Plan organization, will establish an outreach program whereby families meeting specific criteria determined by the Ten-Year Plan organization together with Transition House are targeted for services at Transition House facilities. The agreement on the parameters of this program will be incorporated into the loan agreement and the new covenant, as appropriate, and implemented on behalf of the City by Transition House working together with the Ten-Year Plan organization.

SUBORDINATION OF CITY COVENANT:

Transition House and the City executed an affordability control covenant in 1999 that was amended in 2009 when the Agency made its predevelopment loan. This document sets limits for the income of tenants and the rents to be charged by Transition House. The covenant will be replaced by a new covenant entered into with Mom's and covering all sixteen affordable units. The new covenant will be subordinate to the MBT bridge loan, HCD loan, regulatory agreements, and covenants related to the tax credits. Staff supports the requested covenant subordination, as the tax credit and HCD regulatory agreements result in lower rents and deeper income targeting than that required under the existing City covenant.

Since housing setaside funds were used to finance both the acquisition loan and the predevelopment loan, subordination of the City's affordability covenant is subject to State redevelopment law. California Health and Safety Code Section 33334.14 requires that certain findings be made if affordability restrictions are to be subordinated. As discussed above, MBT and HCD are requesting such subordination. The key finding is that no other "economically feasible alternative" source of financing without the condition of subordination is available. That is clearly the case in this instance. Furthermore, in staff's experience all conventional lenders would require first position security for such loans.

Another requirement is that, in the event of a default by Mom's L.P. under either of the senior deeds of trust, the affordability restrictions recorded against the real property must provide the legal remedies required by California Health and Safety Code Section 33334.14. As described above, these remedies include the right to cure the default and take over the property, thus preserving the affordability restrictions. Replacing the affordability covenant will provide the City with this right.

BUDGET/FINANCIAL INFORMATION:

The City has sufficient federal HOME funds on hand for the proposed project. In fact, the City faces an August 30th deadline to commit these funds, which are funds HUD earmarks for use by specially designated nonprofits known as Community Housing Development Organizations (CHDOs). HUD sets aside 15 percent of the City's annual HOME award for exclusive use by CHDOs. Transition House is one of Santa Barbara's three nonprofit organizations that meet the federal CHDO requirements.

CONCLUSION:

Staff supports the proposed project and requests that Council and Agency Board take the actions recommended herein. In this one new building, Transition House will provide the three critical elements that constitute their comprehensive approach to treating homeless families – housing, child care, and training/support services – resulting in full and lasting recovery.

On July 14, 2009, Council's Finance Committee reviewed this financing request and, on a 3-0 vote, recommended that Council and the Agency Board approve the financing and other actions described herein.

ATTACHMENTS:

1. Letter from Transition House
2. Site Location Map
3. Development Costs/Financing Plan

PREPARED BY: Brian Bosse, Housing and Redevelopment Manager/SK

SUBMITTED BY: Paul Casey, Community Development Director

APPROVED BY: City Administrator's Office



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June 17, 2009

Steven Faulstich
City of Santa Barbara
P. O. Drawer P-P
Santa Barbara, CA 93102

RE: Mom's Apartments, Transition House, 421 and 425 E. Cota Street,
8 New Permanent Apartments for Homeless Families and Child Care

Dear Mr. Faulstich,

Transition House appeared before the Redevelopment Agency in May, 2008 to review the plan to construct eight new apartments of permanent housing for the homeless, a new child care center and space to provide supportive services on property it owns at 421 E. Cota Street, and to renovate the eight apartments owned by Transition House in the building at 425 East Cota Street. The Redevelopment Agency approved the loan request of Transition House for \$120,000 for predevelopment and design expenses for the proposed project.

Transition House hereby requests final review of its financing plan and approval of its request for \$680,000 of HOME funds toward development and construction costs. Specifically, Transition House has established a new limited partnership, Mom's L.P., a California Limited Partnership, to hold the ownership of the existing buildings to be renovated and to construct the new building. Transition House requests that the new HOME funding in the amount of \$680,000 be committed to Mom's, L.P., and that the existing loans of Transition House at this location, be approved to be assumed by Mom's, L.P., and their terms modified so that each of the loans are extended for a 60 year period, to be co-terminus with the new State financing for the project.

Project Planning Concept

This building site comprises the old "Mom's Restaurant" and is adjacent to and legally on the same parcel as our existing building with eight affordable apartments and service space. Transition House proposes to build eight new permanent housing apartments for homeless families graduating from its present shelter and transitional housing program. These 8 new units would be situated behind and above a new ground floor infant child care space for 25 infants, and other supportive services at 421 E. Cota Street. The project also envisions minor rehabilitation and improvement of the existing eight affordable units situated over the administrative offices located at 425 E. Cota Street, including upgraded windows and insulation, appliances, lighting, and mechanical equipment, and a new solar photovoltaic system.

The children served in the new Infant Care Center at 421 East Cota will come from Transition House's client base along with babies from other very low-income families participating in Transition House's Homelessness Prevention Program.

Project Development Team

Transition House now operates an eight-unit complex at 425 E. Cota Street next door to Mom's, and 70 beds at its now-fully-renovated emergency shelter at 434 E. Ortega Street, all in close proximity to the project site. Transition House also owns and operates a 19-unit affordable apartment complex located at 320 S. Salinas Street. Transition House's experience demonstrates its ability to be able to successfully manage the eight new apartments in the new building.

Transition House plans to work with the Santa Barbara City Housing Authority to manage the construction of the new facility as the developer. In 2004, Transition House successfully employed the Housing Authority's development staff to manage its \$2 million shelter renovation construction. The two agencies have collaborated since 1992 serving Santa Barbara's very low income population, and both look forward to working together on the Mom's project.

Transition House has also retained Frank Thompson Housing Consultants to prepare the finance and business plan, obtain necessary financing, including low income housing tax credits and available State and federal financing, and to work closely with the Housing Authority to manage the design and development teams.

The Housing Authority is concurrently financing the Artisan Court project (formerly Haagen Printing) across Cota Street from Transition House. If timing and other factors allow, both projects may move through some aspects of financing, and construction together, and benefit from close cooperation between the staff of each agency. In addition, the child care center to be built in Transition

House's new project, along with educational programs and career development services aimed at engendering economic stability in participants, will be offered to qualifying low-income residents of the Artisan Court project. These services are provided at the 425 E. Cota Street location as part of Transition House's Homelessness Prevention Program.

Project Financial Elements

The ability of the Low Income Housing Tax Credit program to generate large amounts of capital for new permanent housing for the homeless has been demonstrated in several recent projects in Santa Barbara. With the goal of reducing Transition House's City funding request to the minimum, safe level that can be anticipated, the ownership of the new project and existing development needs to be legally structured in a limited partnership, so that low income housing tax credits can be obtained and equity funding obtained. Transition House, with Frank Thompson's assistance, has established Mom's, L.P., a California Limited Partnership, including Santa Barbara Housing Assistance Corporation, and Garden Court, Inc. as general partners. We have applied to the State Treasurer's Office on June 9, 2009, and anticipate receiving \$ 4,230,726 in limited partner equity from low income housing tax credits toward total project costs.

Santa Barbara Housing Assistance Corporation serves as general partner in the Garden Court project, El Carrillo project, and 9 other affordable housing projects throughout California, with other housing authorities and private investors. The Housing Authority of the City of Santa Barbara is available to provide technical assistance with management, or other ongoing facilities issues if requested by Transition House.

Transition House anticipates borrowing \$1,037,174 from the State of California Department of Housing and Community Development Supportive Housing Program. This is a new program, bond-funded, to provide 55 year financial assistance for qualified permanent housing for the homeless where substantial supportive housing services are available. This supportive housing service model is currently offered at each of Transition House's properties.

Mom's, L.P. has applied to and been approved by Montecito Bank and Trust for an acquisition and construction loan in the amount of \$3,475,400 for the project. This loan would be fully repaid when the State loan is received and the tax credit equity is received by the project.

Although the exact costs to construct and develop the new facility can not be known at this time, we have based our costs on recent low income housing construction costs in the City of Santa Barbara, plus a contingency intended to cover higher costs over the estimated two-year period until the facility could be completed.

The estimated total project cost is \$7,987,453, including the cost of the eight new apartments and infant day care center at \$5,162,453. The total cost of acquisition is \$2,505,000, based on our appraisal dated June 1, 2009, including \$1,252,500 for the apartments, above, and \$1,252,500 for program and administrative space at the first floor of the building at 425 East Cota Street. The estimated costs to renovate the existing building is \$320,000.

The June 1, 2009 appraisal of Wayne Holden, SRPA, shows land value at \$4,395,000. Transition House will keep the land, free and clear, and execute a 90 year ground lease with Mom's, L.P. We seek City approval to have Mom's, L.P. assume the existing City loan for \$320,000 principal plus approximately \$100,000 in accrued and unpaid interest, and the recent City loan of \$120,000 for predevelopment. These loans would be secured against the leasehold interest and ownership of the buildings held by Mom's, L.P. The Transition House ground lease will subordinate to the mortgage financing on the buildings (City, Redevelopment Agency, Montecito Bank and Trust and State loans).

Transition House hereby requests an allocation of HOME funds in the amount of \$680,000 to be added as a loan, to the existing City financing on our property. Transition House also requests City cooperation to restructure the existing financing as follows:

- \$320,000 existing Redevelopment Agency loan for acquisition of the property in July, 1999 plus accrued interest of approximately \$100,000 as of July 30, 2009, with the loan due date extended from July 30, 2029 to July 30, 2069, subordinate to acquisition and construction financing of Montecito Bank and Trust (or similar lender) and State of California loan, and;
- \$120,000 existing Redevelopment Agency loan for predevelopment expenses of the project, with a loan due date of July 30, 2069 and 3% simple interest deferred as residual receipts through the life of the loan, subordinate to the Montecito Bank and Trust loan and the State of California loan, and;
- \$680,000 new HOME loan for development expenses of the project, with a loan due date of July 30, 2069 and 3% simple interest deferred as residual receipts through the life of the loan, subordinate to the Montecito Bank and Trust loan and State of California loan..

We have included a tabular time frame for the project, below, showing our continuing steps, culminating in construction start in May, 2010, completion in August, 2011, followed by occupancy by December, 2011.

Transition House appreciates the past support we have received from the City of Santa Barbara and we are grateful to City for considering our request.

We have included a detailed projected draw schedule for City and other predevelopment expenses, a copy of our architect proposal, a copy of our recent property appraisal, and a schedule showing the areas and cost allocations between the residential and non-residential construction, new and existing parts of the building.

Transition House has provided notice to the existing commercial and one residential tenant on the building site, pursuant to federal requirements, and has included costs of relocation in its development budget, in compliance with federal statutes.

If you have further questions, please don't hesitate to contact me at 966-9668, or the other members of our project team.

Sincerely,

A handwritten signature in black ink, appearing to read 'Kathleen Baushke', with a stylized flourish at the end.

Kathleen Baushke
Executive Director

cc: Skip Szymanski, Housing Authority of the City of Santa Barbara
Rob Fredericks, Housing Authority of the City of Santa Barbara
Frank Thompson, Frank Thompson Housing Consultants

Transition House Property



Attachment 3

Development Costs & Financing Plan for Mom's Place Project

Original Financing (1999)

SBB&T:	\$727,578
RDA Acquisition Loan:	320,000
Trans House Fundraising:	<u>1,952,422</u>
Total:	\$3,000,000

SBB&T refinanced original loan in 2006 with new 15-year note of \$675,000. Over the last 10 years, interest has accrued on the RDA Acquisition Loan, resulting in a current balance of \$420,000. This new revised amount appears in the lists of funding sources below.

Costs of Proposed New Project

New Construction:	\$5,163,000
Renovation:	320,000
Acquisition by Moms LP:	<u>2,505,000</u>
Total	\$7,988,000

Funding Sources During Construction

MBBT Bridge Loan:	\$3,475,000
RDA Acquisition Loan:	420,000
RDA Predevelopment Loan:	120,000
Proposed New HOME Loan:	680,000
Seller Carryback Loan:	470,000
Deferred Developer Fee:	568,000
Tax Credit Equity Advance:	1,270,000
Transition House:	<u>985,000</u>
Total	\$7,988,000

Permanent Funding Sources

State Supportive Hsng Loan:	\$1,037,000
RDA Acquisition Loan:	420,000
RDA Predevelopment Loan:	120,000
Proposed New HOME Loan:	680,000
Seller Carryback Loan:	240,000
Deferred Developer Fee:	257,000
Tax Credits:	4,231,000
Transition House:	<u>1,003,000</u>
Total	\$7,988,000